Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended December 31, 2011

Canada

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Canadian Grain Commission
Quarterly Financial Report
For the period ended December 31, 2011

1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "A leader in delivering excellence and innovation in grain quality and quantity assurance, research, and producer protection." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are protected**.

The CGC's Program Activity Architecture has five program activities that each contribute to making progress to the sole strategic outcome. The program activities are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the Main Estimates.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be appropriation for the fiscal year in which it is issued.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament remain on an expenditure basis (modified cash) of accounting.

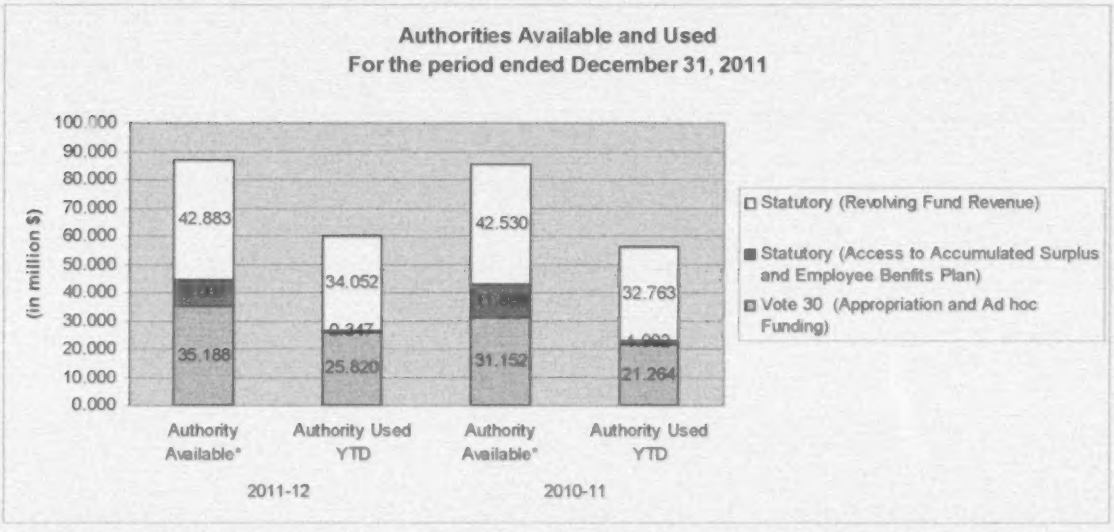
1.3 CGC Financial Structure

The CGC is funded by a combination of an ongoing appropriation, special appropriation and authority to re-spend fees collected. A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. However, the CGC's user fees have not increased since 1991, operating costs have continually increased, and annual grain volumes can fluctuate considerably from year to year. As a result, overall cost recovery has fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent today. The CGC's falling cost recovery level has caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation funded positions and the CGC revolving fund authority which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures that includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures and should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object* which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at December 31, 2011 is $44.190 million, as compared to $43.021 million as at December 31, 2010. The increase of 2.7% ($1.169 million) can be attributed to the following significant variances:

1. Through Budget 2010, the CGC received an increase in its ad hoc appropriation authority for 2011-12. Budget 2010 identified ad hoc appropriation authority of $26.0 million for 2010-11 and $30.2 million for 2011-12.

2. Budget 2010 identified that the CGC should seek authority to access a portion of its accumulated surplus to support its operations in the amount of $11.4 million for 2010-11 and $8.5 million for 2011-12. The CGC received its approval to access $8.5 million of its accumulated surplus in October, 2011.

Total available for use reflected in the *Departmental Budgetary Expenditures by Standard Object* differs from the revolving fund gross revenues as stated in both *Main Estimates* and the *Statement of Budgetary Authorities* due to the differences in

budgetary authorities and planned spending. Planned spending forecasts re-spendable revenues of $37.183 million based on projected grain volumes of 50 million tonnes, while Main Estimates reflect the authority limit to re-spend revenue of $42.883 million in 2011-12.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary expenditures in the fiscal year as at December 31, 2011 is $26.167 million, as compared to $23.166 million as at December 31, 2010. The increase of 12.9% ($3.001 million) can be attributed to the following significant variances:

1. Personnel expenditures increased by 8.0% ($3.732 million) as compared to year to date last year as a result of the liquidation of severance arising from renegotiated collective agreements, as well as increases to salary levels.

2. Revolving fund revenue increased by 3.9% ($1.289 million) as compared to the year to date last year. This increase is as a result of the CGC handling an additional 1.8 million tonnes of grain over the same period last year.

As reflected in both the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, overall expenditures are consistent between the quarters.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. Current ongoing authorities provide identified funding for approximately 50% of the resource requirement for the CGC. For the remaining 50%, the CGC received ad hoc funding secured through Budget 2010.

The absence of a stable funding formula creates risk for the organization in a number of ways.

There is the risk that lack of funding will negatively affect the ability to make decisions, and to fully deliver the mandate. This is not only felt through a potential shortage of qualified staff, but in the risk that the CGC's scientific technological capacity will not keep pace with the evolving needs of the grain industry. To address these risks the CGC must ensure that resources are targeted toward existing and emerging grain quality and safety issues, and that capital budget allocations are sufficient to acquire equipment used in international laboratories.

Additionally, there is a risk that aging infrastructure will lead to increased maintenance costs which cannot be managed due to fiscal restraints. To address this risk, the CGC has identified the expected life cycle of all facilities and has created a long term investment plan

that identifies required upgrades to facilities, complete with cost assessments that justify the recommended investment in renewal.

To address the CGC's funding challenge, the organization has consulted on proposals to update its user fees and has also developed a proposal for a sustainable funding model. The projected next steps are that the Minister of Agriculture and Agri-Food will table the user fees proposal in both houses of Parliament. Subsequently, the CGC will seek approval of a new fee schedule from the Governor in Council. The CGC is currently assessing options to ensure appropriate funding is available to meet operational and staffing requirements. Going forward there are no significant planned changes to the CGC's program activities.

The revolving fund is utilized as effectively as possible, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting. The annual budget is also re-profiled through the year to deal with shifting needs and priorities that have arisen.

Budget 2010 announced that departments would be frozen at their 2010-11 levels for fiscal years 2011-12 and 2012-13. Management continues to review various options to adjust to these constraints in funding and the impact on departmental activities has been managed through the following actions and mitigation strategies:

1. Staffing needs to deal with fluctuating grain volumes and the delivery of mandatory services will be addressed with the use of overtime for existing staff or the hiring of term and casual employees;
2. The CGC has made the decision to forego discretionary capital spending during this period of restraint. Purchases will be made on a "mission critical" basis only;
3. The CGC continues to monitor and control discretionary expenditures; and
4. The CGC continues to search for efficiencies through the sharing of internal services with other government departments.

Budget 2011 announced that departmental budgets would be examined through the Deficit Reduction Action Plan. However, the nature, timing and impact to the CGC are unknown at this time.

4. Significant Changes to Operations, Personnel and Programs

There have been no significant changes in relation to operations, personnel and programs over the past year.

Approved by:

Jim Smolik per Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
February , 2012

Jacqueline Pearce
Acting Chief Financial Officer
Winnipeg, Manitoba
February , 2012

Statements of Budgetary Authorities (Unaudited)

For the period ended December 31, 2011

(in thousands of dollars)	*Fiscal Year 2011-12* Total available for use for the year ending March 31, 2012*	Used during the quarter ended December 31, 2011	Year-to date at quarter end	*Fiscal Year 2010-11* Total available for use for the year ending March 31, 2011*	Used during the quarter ended December 31, 2010	Year-to date at quarter end
Vote 30						
Appropriation and Ad hoc Funding	$ 35,188	$ 8,927	$ 25,820	$ 31,152	$ 10,136	$ 21,264
Statutory Authorities:						
Revolving Fund Gross Expenditures	51,263	12,259	33,932	53,810	9,894	34,222
Revolving Fund Gross Revenues	(42,883)	(12,259)	(34,052)	(42,530)	(11,068)	(32,762)
Revolving Fund Net Expenditures	$ 8,380	$ 0	($ 120)	$ 11,280	($ 1,174)	$ 1,460
Employee Benefit Plan	622	156	467	589	147	442
Total Statutory Authorities	9,002	156	347	11,869	(1,026)	1,902
Total Budgetary Authorities	$ 44,190	$ 9,083	$ 26,167	$ 43,021	$ 9,109	$ 23,166

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended December 31, 2011

(in thousands of dollars)	Fiscal Year 2011-12 Total available for use for the year ending March 31, 2012*	Expended during the quarter ended December 31, 2011	Year-to date at quarter end	Fiscal Year 2010-11 Total available for use for the year ending March 31, 2011*	Expended during the quarter ended December 31, 2010	Year-to date at quarter end
Expenditures:						
Personnel	$ 67,914	$ 17,699	$ 50,258	$ 66,720	$ 16,492	$ 46,525
Transportation and communication	4,230	1,254	3,131	4,261	1,253	2,971
Information	168	57	124	244	63	170
Professional and special services	1,758	255	1,301	1,750	508	1,221
Rentals	4,072	1,018	3,014	4,294	995	2,994
Repairs and Maintenance	819	245	606	526	139	367
Utilities, materials and supplies	848	299	628	686	180	479
Acquisition of machinery and equipment	1,562	515	1,156	1,708	547	1,191
Other Subsidies and payments	2	0	1	15	0	11
Total Expenditures	**$ 81,373**	**$ 21,342**	**$ 60,219**	**$ 80,204**	**$ 20,177**	**$ 55,929**
Revolving Fund Revenue (To be credited to Vote)	**(37,183)**	**(12,259)**	**(34,052)**	**(37,183)**	**(11,068)**	**(32,763)**
Total Budgetary Authorities	$ 44,190	$ 9,083	$ 26,167	$ 43,021	$ 9,109	$ 23,166

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.